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Supply and demand of cotton in Zambia

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Report Highlights:

Post forecasts that Zambia's cotton production will increase by about 25 percent to 50,000 MT in the 2014/15 MY. The area planted is expected to increase by about ten percent to 410,000 hectares as there is a renewed interest in cotton production due to the improvement of cotton prices, the challenges faced with corn marketing in Zambia and the weakening of the Zambian Kwacha, which makes Zambian cotton exports more competitive. As a result, exports of cotton lint in the 2014/15 MY is expected to increase by 11 percent to 43,600 MT.

Executive Summary

This cotton report is the first in a series of agricultural commodity situation and outlook reports on Zambian agriculture, after FAS Pretoria initiated a reporting contract in Zambia. Next reports will cover *inter alia* sugar, grains and oilseeds.

Post forecasts that Zambia's cotton production will increase by about 25 percent to 50,000 MT in the 2014/15 MY. The area planted is expected to increase by about ten percent to 410,000 hectares as there is a renewed interest in cotton production due to the improvement of cotton prices, the challenges faced with local corn marketing due to government interventions and the weakening of the Zambian Kwacha, which makes cotton exports more competitive. Cotton production declined marginally in the 2013/14 MY to 100,106 MT compared to the 102,938 MT produced in the 2012/13 MY.

Post expects that Zambia's cotton lint exports in the 2014/15 MY will increase by 11 percent to 43,600 MT from the estimated exports of 39,240 MT in the 2013/14 MY, due to an expected increase in the production of cotton. Zambia's cotton lint exports plummeted by 57 percent in the 2012/13 MY to 39,524 MT after 92,723 MT of cotton lint where exported in the 2011/12 MY.

Background

The cotton industry in Zambia has grown from the monopolistic area (prior to 1994), when Lint Company was responsible for every activity in the industry, to the current 11 ginning companies operating in the cotton value chain. Privatization of the sector prompted rapid growth which peaked in the 2004/05 MY, when a record cotton production of 87,000 MT was realized. This level of production was the result of an increase in the number of cotton farmers, promising world market prices and favorable weather conditions.

Zambia's favorable soil and climatic conditions offer high potential for cotton production. Cotton is grown in agro-ecological zones I and II from about 750 meters to 1,200 meters above sea level, comprising the provinces of Southern, Central, Lusaka, Eastern, Copper belt and Western (see also map below). The potential for cotton production in Zambia in terms of suitable land and climate is vast and is estimated at over 800,000 hectares. However, only about 400,000 hectares are currently under cotton cultivation. Cotton is mainly produced as a cash crop by more than 300,000 small scale farmers under out-grower contracts with the ginning companies.



Figure 1: Map of Zambia

Source: Ezilon.com

Production

Post forecasts that Zambia's cotton production will increase by about 25 percent to 50,000 MT in the 2014/15 MY. The area planted is expected to increase by about ten percent to 410,000 hectares as there is a renewed interest in cotton production due to the improvement of cotton prices, the challenges faced with local corn marketing due to government interventions and the weakening of the Zambian Kwacha which increase export competitiveness.

Seed cotton intake by ginners has declined marginally in the 2013/14 MY compared to the 2012/13 MY. Seed cotton intake is estimated at 100,106 MT, a decrease of three percent from the previous season's intake of 102,938 MT (see also Table 1). Zambia's cotton marketing season closed in October 2014 and the ginning firms were not anticipating intake figures to increase significantly. However, seed cotton production was lower than the projections made by the ginning companies at the start of the season. The companies had projected that output would reach 126,170 MT. The projection by the ginning industry was similar to the projection made by the Ministry of Agriculture and Livestock and the Central Statistical Office in the Crop Forecast Survey.

Table 1: Zambian cotton intake by ginners for the 2013/14 MY

COMPANY NAME	No. OF FARMERS	HECTARES FINANCED	KILOGRAMS PURCHASED	LINT PRODUCTION (MT)
NWK Agri Services	79,066	93,798	25,104,370	10,042
Cargill Zambia (2009) Ltd	54,636	65,769	22,406,962	8,963
Continental Gineries Ltd	42,000	60,000	14,065,749	5,626
China Africa Cotton	44,623	45,325	9,377,510	3,751
Alliance Gineries Ltd	27,823	34,453	9,862,362	3,945
Grafax Cotton (Z) Ltd	27,000	33,000	9,718,983	3,888
Yustina Cotton and Oil Co.	5,121	7,130	292,000	117
Africa Global development Corp	9,080	11,000	3,450,893	1,380
Afri Cotton Zambia Ltd	1,371	1,511	310,000	124
Manjeet Cotton (Z) Ltd	16,468	18,531	5,033,325	2,013
Mumbwa Farmers' Ginning & Pressing Company Ltd	2,562	2,826	483,404	193
Total	309,750	373,343	100,105,558	40,042

Source: Cotton Association of Zambia

Planted area supported by the ginning companies in the 2013/14 MY reduced by nine percent to

373,343 hectares from 410,000 hectares supported in the 2012/13 MY (see also Table 2). In addition, the number of farmers supported to grow cotton in the 2013/14 MY also reduced by 8 percent to 309,750 farmers, compared to 336,754 farmers in the 2012/13 MY. The decline in cotton production can partly be attributed to farmers switching to alternative crops such as corn and soybeans which had more positive price movement in the previous season.

Average cotton yields reported by the ginning companies are generally low. Most ginners reported yields of between 200-300 kg per hectare for the farmers they supported with inputs.

Table 2: Area planted and production of cotton lint in Zambia the past six years

Marketing year	2009/10 (actual)	2010/11 (actual)	2011/12 (actual)	2012/13 (actual)	2013/14 (estimate)	2014/15 (forecast)
Area Planted (ha)	230,648	281,688	512,779	410,977	373,343	410,000
Prod. of Seed Cotton (MT)	71,755	142,292	272,201	102,938	100,106	125,000
Yield (MT/ha)	0.31	0.50	0.53	0.25	0.27	0.30
Lint production (MT)	28,702	56,920	108,880	41,700	40,042	50,000
Lint production ('000 – 480lb bales)	132	261	500	191	184	230

Source: Cotton Association of Zambia

The cotton sector in Zambia has seen reduced market concentration over the past few years with more entrants in the ginning industry. The cotton sector had six ginning companies in 2010 and it increased to 11 in 2014. This has resulted in more competition, but is also likely to have an impact on the cotton financing model. Currently, the ginning companies pre-finance farmers to grow cotton. However, as more players have entered the market, anecdotal evidence has emerged that this model is likely to be tested as side selling increased. With fewer ginners incidences of side selling was not significant.

Transgenic cotton

Zambia has not yet embraced transgenic cotton. Zambia has a bio-safety act and policy in place since 2007. The local Cotton Development Trust has submitted an application for possible transgenic tests, but has been met with a slow response from the Bio-safety council.

Prices

Farm gate cotton prices increased by nine percent to K2.4 per kilogram in the 2013/14 MY compared to K2.2 per kilogram in 2012/2013 MY (see also Table 3). Cotton prices offered to farmers have continued to trend upwards over the past three seasons. From the high of K3.20 per kilogram in the 2010/11 MY, the price of cotton had collapsed to K1.8 per kilogram the following season. This resulted in many farmers exiting cotton production and a significant decline in output from the peak production of 272,000 MT in the 2011/12 MY.

However, if the upward three year trend in prices continues, hectares planted to cotton are likely to begin increasing again. This is also in view of the challenges faced in local corn marketing due to

government interventions. The Zambian government not only bought and stored about a million tons of the current corn crop at discounted prices but also delayed payments to farmers. As a result, many farmers will switch back to cotton production.

Table 3: The five year trend in Zambia's cotton prices

Marketing Year	Rebased Price (ZMK/kg)	Price (US\$/kg)	Exchange rate (K/US\$)
2009/10	1.80	0.38	4.8
2010/11	3.20	0.66	4.9
2011/12	1.60	0.31	5.1
2012/13	2.20	0.41	5.4
2013/14	2.40	0.43	5.6

Source: Cotton Association of Zambia

Consumption

Cotton lint consumption by Zambia's spinning industry is approximately 14,500 MT, while local lint production of 40,000 MT exceeds local demand. Most of the local cotton sales are for two spinning companies located on the Copperbelt. The ginned cotton is used in the production of mutton cloth, tents, and boiler suits for use by the mining industry as well as other Personal Protective Equipment (PPE) used in the mines. The Cotton Association of Zambia is trying to increase the local consumption of cotton through a program supporting rural women clubs with hand looms for the production of clothing items. However, only 2 MT of ginned cotton was supplied for this purpose by one ginning company.

Trade

Post forecasts that Zambia's cotton lint exports in the 2014/15 MY will increase by 11 percent to 43,600 MT from the estimated exports of 39,240 MT in the 2013/14 MY. This increase in the exports of cotton lint by Zambia will be due to an expected increase in the production of cotton in the 2014/15 MY.

Zambia's cotton lint exports plummeted by 57 percent in the 2012/13 MY to 39,524 MT after 92,723 MT of cotton lint where exported in the 2011/12 MY (see Table 4). The drop in exports was mainly due to the decrease in cotton production. South Africa remains the most import destination for Zambian cotton after a major decrease in cotton exports to China.

Table 4: Top destinations of Zambia's cotton exports

Country	2010/11 MY	2011/12 MY	2012/13 MY
South Africa	9,832	30,599	18,966
Indonesia	2,602	5,897	9,773
China	23,173	40,470	7,587
Mauritius	5,619	5,483	1,559
Thailand	684	2,248	476
India	453	6,864	32
Others	4,447	1,162	1,131
Total	46,810	92,723	39,524

Source: Global Trade Atlas

Table 5: Supply and demand of cotton in Zambia

Cotton Zambia	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Aug 2012		Market Year Begin: Aug 2013		Market Year Begin: Aug 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	411	0	373	0	410
Area Harvested	200	411	170	373	210	410
Beginning Stocks	270	270	185	220	185	159
Production	175	191	220	184	230	230
Imports	0	0	0	0	0	0
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	445	461	405	404	415	389
Exports	200	181	170	180	180	200
Use	60	60	50	65	40	65
Loss	0	0	0	0	0	0
Total Dom. Cons.	60	60	50	65	40	65
Ending Stocks	185	220	185	159	195	124
Total Distribution	445	461	405	404	415	389

1000 HA, 1000 480 lb. Bales, PERCENT, KG/HA